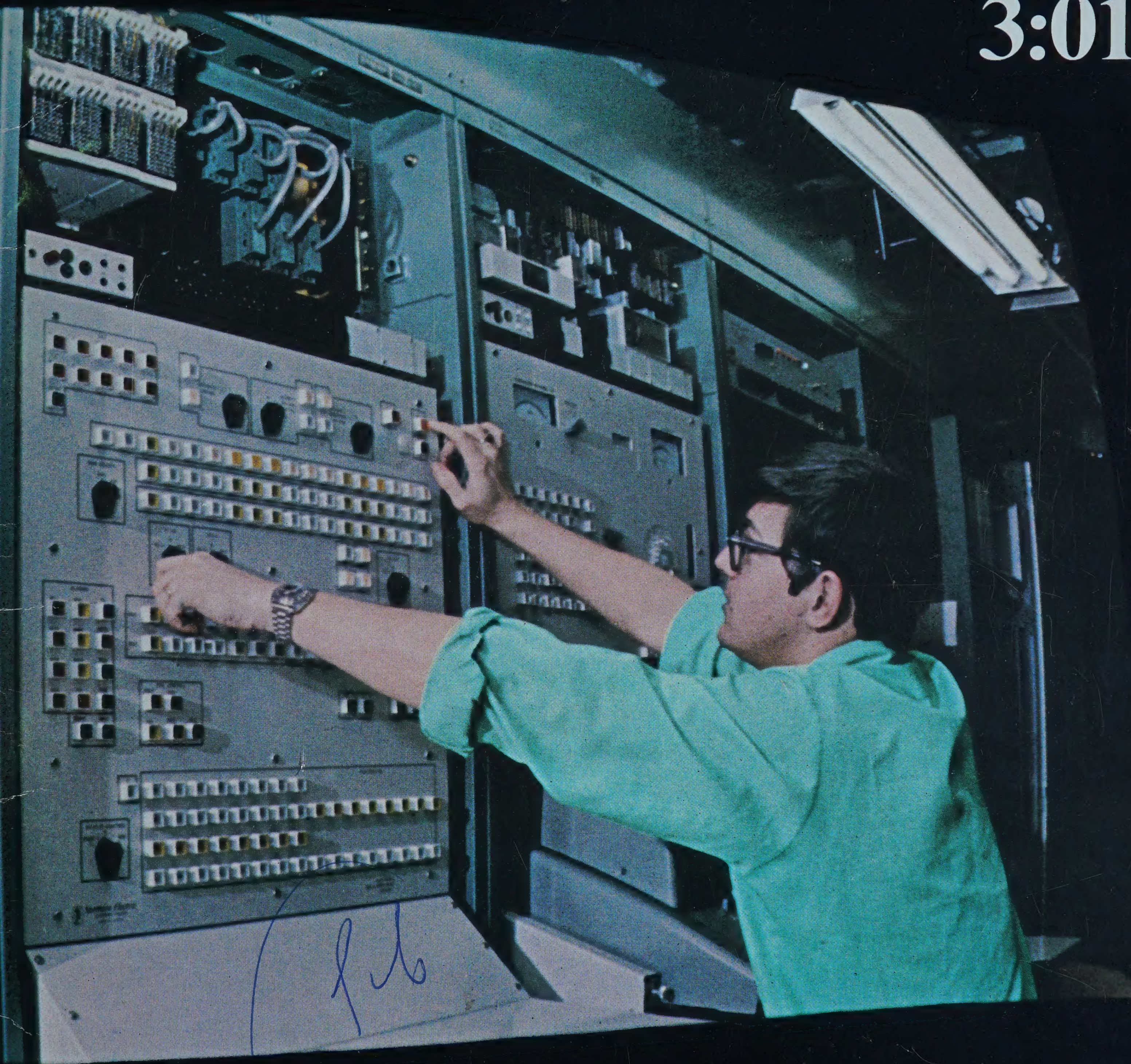
3:01am



..being of service

The ANNUAL REPORT of Maritime Telegraph & Telephone Company, Limited, for 1974

ABOUT THE COVER

The workday sometimes starts all over again after midnight for Paul Smith, central office maintenance man at the console of the new Rockingham Stored Program switching machine.

Like all telephone people — some of whom are shown throughout this Report — Paul has the firm conviction that "giving service to the subscriber . . . that's our prime job."

The story of that service and how it's made possible is the theme of this Report. People make the difference.

For Paul Smith, machines do, too. At 22, he's been with MT&T for three years. He spent 16 weeks learning his latest job. It's a nine-to-five job, except when there's something special. Then it's anytime, such as 3:01 a.m. when the SP-1 was actually cut into service.

"It's really a fantastic machine, the speed it has, processing . . . you store up the memory, and it takes over."

1974 Annual Report

of the Directors to the Shareholders of Maritime Telegraph & Telephone Company, Limited

Incorporated under the laws of the Province of Nova Scotia

Head Office: 1520 Hollis Street
P.O. Box 880, Halifax, Nova Scotia, Canada
B3J 2W3 Telephone (902) 424-4541

NOTICE OF ANNUAL MEETING

The annual general meeting of the shareholders of Maritime Telegraph & Telephone Company, Limited will be held at the Head Office of the Company, 1520 Hollis Street, Halifax, N.S., on Monday, the 31st day of March, 1975, at twelve o'clock noon.

This 1974 Annual Report is a summary of the operations of the Company in its 65th year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

Stock transfer offices

Maritime Telegraph and Telephone Company, Limited, 1520 Hollis Street, Halifax, Nova Scotia (common shares, 7% preferred shares, 7.10% preferred shares and 8.60% preferred shares)

Canada Permanent Trust Company, 600 Dorchester Blvd. West, Montreal 101, Quebec (common shares, 7.10% preferred shares and 8.60% preferred shares)

Canada Permanent Trust Company, 20 Eglinton Ave. W., Toronto 1, Ontario (common shares, 7.10% preferred shares and 8.60% preferred shares)

Canada Permanent Trust Company, 315 Eighth Avenue, S.W., Calgary, Alberta (7.10% preferred shares and 8.60% preferred shares)

Canada Permanent Trust Company, 1778 Scarth Street, Regina, Saskatchewan (7.10% preferred shares and 8.60% preferred shares)

Canada Permanent Trust Company, 455 Granville Street, Vancouver, British Columbia (7.10% preferred shares and 8.60% preferred shares)

Canada Permanent Trust Company, 433 Portage Avenue, Winnipeg, Manitoba (7.10% preferred shares and 8.60% preferred shares)

Stock registrar

The Halifax, Montreal and Toronto offices of Canada Permanent Trust Company are registrars of common shares of the capital stock of the Company.

The Halifax, Montreal, Toronto, Calgary, Regina, Vancouver and Winnipeg offices of Canada Permanent Trust Company are registrars of 7.10% preferred shares and 8.60% preferred shares of the capital stock of the Company.

Common shares, 7.10% and 8.60% preferred shares listed

Montreal Stock Exchange
Toronto Stock Exchange

Valuation Day Prices
(December 22, 1971)

Common Shares	*$22.13*
7% Preferred Shares	*$ 9.63*

President's Message

1974 was a year of great progress in service. The 3,500 men and women working on a "round the clock" basis accomplished much in providing more and better service to the people of Nova Scotia.

The gain in telephones was just under 30,000, an all-time record. The nearest approach to this record was in 1972 when the gain was 25,885. More local and long distance calls were handled than in any previous year.

Early in 1974, your Company accepted a proposal from Trizec Equities Ltd. to provide leased space for new head office quarters in a building to be constructed on MT&T land, part of which was formerly occupied by the Capitol Theatre. (It is said that this is the very site on which documents founding the City of Halifax in 1749 were signed). Maritime Centre, as the development is called, is to be ready for occupancy by September, 1976, with your Company as the principal tenant.

With the establishment of 21 dial exchanges, and their conversion from manual service — a record number over any previous year — 98.1% of all telephones in Nova Scotia are now dial operation.

In addition, and of special interest, was the $4 million Rockingham Centre. There, technology for computerized "stored program" flexibility that

was hardly dreamed of a few years ago was put into service for the first time in Atlantic Canada. This new electronic central switching office made a total of 13 separate switching centres in the large Halifax metro area. These serve approximately 725 square miles through which connections are made to and from more than 150,000 telephones in a single calling area.

This dial program throughout Nova Scotia was paralleled by other accomplishments in the accelerated modernization activity. Direct Distance Dialing availability rose to 85% of the Province's telephones. With the provision in 1976 of Direct Distance Dialing for Kentville and the Valley exchanges generally, DDD availability for all

D. W. Myers
Executive Vice-President

W. S. Robertson
Vice-President (Operations)

A. H. MacKinnon
Vice-President (Planning)

customers will be complete at 100%.

But progress, growth and expansion have their cost penalties, and expenses rose rapidly as double-digit inflation made its impact felt. Your Company is dependent on large amounts of capital, labor and materials, all of which skyrocketed in price during 1974, and despite improvements in Company revenues with the introduction of higher rates on October 1 — rates which were anticipated to yield an approximate 10.3% increase in projected overall revenues — earnings were reduced.

A year ago, average earnings per share were $1.94. At this year end, our average earnings stood at $1.75. The ill-conceived surtax imposed by the Federal Government in the latest budget cost close to three-quarters of a million dollars and was equal to 15% of the total rate increase or approximately nine cents per share. Letters were written to the Federal Minister of Finance protesting the tax and pointing out that the added tax cost will mean high rates for the telephone users in Nova Scotia. To date, nothing of a positive nature has happened that would improve the situation for 1975.

In summary, M.T.&T.'s quality of customer service will continue to improve throughout 1975. The dial conversion and Direct Distance Dialing modernization program will be continued as will the rural service modernization program. The number of rural telephones per line now averages 6.3, down from 7.4 in 1973.

Nineteen seventy-five will be a difficult year even though telephone growth will continue. Earnings must improve too and with uncontrolled "input" costs of material, wages, taxes and money at steadily increasing levels, it is highly probable that your Company will find it necessary to request the Board of Commissioners of Public Utilities for Nova Scotia to permit further rate adjustments during 1975. This will be necessary in order to catch up with costs. It will be a difficult year and one that will require the best from each of your Company's employees.

We are hopeful, however, that 1975 will be a year of progress with continued improvement in service to customers, a fair reward for employees' efforts and a proper return to shareholders for their monetary support and confidence in the Company.

A. G. Archibald

A. Gordon Archibald
President

being of service

5:10am

When Esther Spates was thinking about a job a while back, she remembered her aunt. ''She was an operator with the phone company. So I went and had a look at what she was doing . . . and when I went for my job interview, I knew that that was the kind of work I wanted to do.''

Esther is one of 40 toll operators who work at the boards at the Yarmouth long-distance centre, which means when a customer calls there's no way the customer knows which operator is answering.

''I guess we all know we're human . . . but I remember once a friend of mine telling me her husband always thinks of the telephone operators as 'part of the machinery'.

''That kind of shook me. I guess I realized then that when we do our jobs and do them well, maybe people do just take it for granted.'' Maybe that's what good service is all about, when what you do is taken for granted.

"...suddenly, you are no longer alone."

It is 8:35 a.m. You are in your home and your new telephone service is being installed. Quite suddenly, you are no longer alone — you can pick up the telephone.

During your day, you are a number of different people. Consumer. Wage earner. Concerned citizen. Parent.

But whatever role you play, your telephone allows you to reach out to make contact. To carry your influence, your personality, your presence with astounding speed and impact to people and places where it would be impossible or impractical for you to reach otherwise.

Your telephone allows you to communicate and to do it in such an ordinary way that you are rarely aware there's much difference between telephoning and speaking to someone sitting next to you.

This precisely defines Maritime Tel's standard of service; to provide communications so accessible, so easy to use, that works so quickly and smoothly, you need not be conscious of it.

How did we maintain this standard in 1974?

GROWTH

In terms of growth, the year showed a marked increase over the previous record years of 1972 and 1973. But in terms of investment to meet that growth, the costs were at an all-time high.

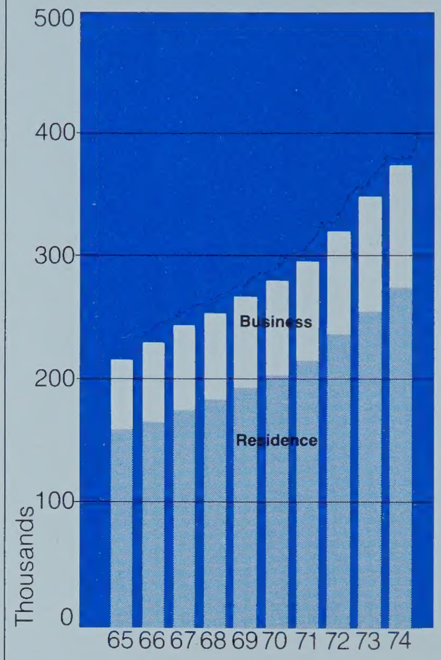
During the year, installation crews completed 186,541 orders, connecting and disconnecting phones, changing and upgrading service. Net result was a gain of 29,233, or one new phone for every 6.4 orders worked. At the end of the year, the total of business and residence telephones in service stood at 378,823, an increase of 83% over ten years ago.

In the same ten-year period, the proportion of family homes and apartments in the Province with phone service rose from 76.7% to 98.1%. At the same time, single-party residence service increased from 90,710 to 173,371, and thus 79.3% of all residence services are private lines.

Similarly, extension phones in service in homes rose from 14.2% to 26.9% of main residence lines.

Nationally, the number of telephones for every 100 persons is 52.5. In Nova Scotia ten years ago this stood at 27.9 and at year end had risen to 46.7 and continues to increase.

Telephones in service
(end of year)



CALLING VOLUMES

The pace of commercial, industrial and community life in Nova Scotia continues to increase and is reflected in the growing volume of telephone calls which is approaching one billion yearly. In 1974, the total exceeded 826 million, nearly double that of a decade ago.

Of these, 26.7 million were long distance calls, more than double those of ten years ago. And with the increase of Direct Distance Dialing capability, the ratio of DDD calls compared to operator-handled calls continues to increase; in 1974, 59% of long distance calls were dialed directly by customers.

This increase was boosted by the provision of DDD to exchanges in 21 communities in all parts of the Province where automatic dial equipment was introduced as part of the on-going modernization program; including growth in other exchanges an overall 43,728 additional telephones were

being of service

8:35am

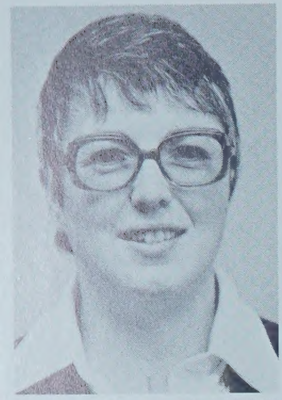
For Herman Fielding, the kind of work he does depends on what's happening. ''For instance, there's another new shopping centre being built in Truro right now. That'll take a lot of telephone services.''

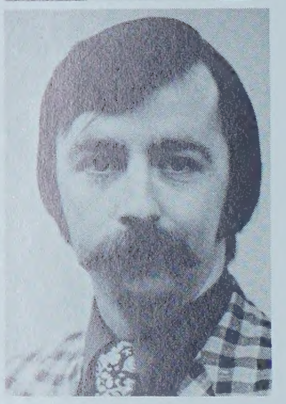
But for 24 of his 29 years with MT&T Herman has been an installer-repairman in the Truro area, and has been outdoors ''all my life. You know, I wouldn't like it 'inside'.'' Even last October's disastrous storm didn't phase him. It was 'round-the-clock', seven-days-a-week for the better part of a month before the mess was cleaned up.

Active in community affairs, a member of the Bible Hill Fire Department, he's seen his community grow along with the telephone company. He's a vital part of both, and he likes it that way.

being of service

10:45am

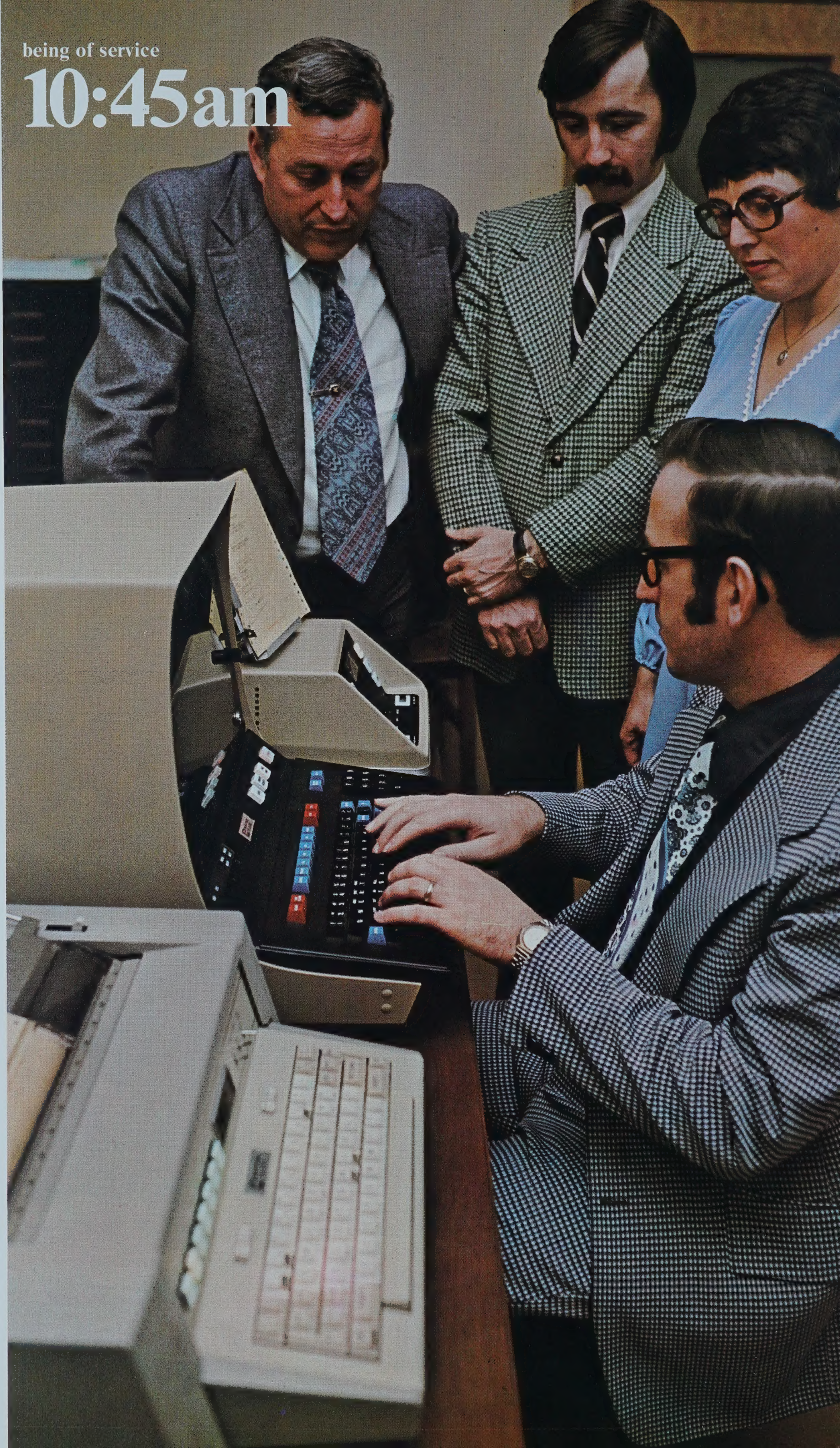




Building a "job bank" for Canada Manpower at Sydney was a new kind of challenge for Ruby Skinner and John Cameron.

A service advisor with the Traffic Department, Ruby finds her job both varied and interesting. She started her career as an operator, and for a while was a service analyst. Now she's so busy travelling to customers' premises all over her area, "when I do get home, I really enjoy the rest. I just love my job, though. I love meeting people and I love talking to people. And in Cape Breton, it's different . . . you really get to know your customers. It's not impersonal, you know what I mean?"

For John Cameron, who spent nearly five years as a telephone salesman, when the customer calls, "he either recognizes what he wants, or you do. At least he knows there's something wrong, and your job is to make an analysis of his communications needs. That's how this Manpower 'job bank' got started." Working out of Halifax, John has now moved to a new job, Rates Planner, which, as he puts it, "is really knowing how to put price tags on new and specially-designed systems."



connected to the North American DDD network during the year.

MODERNIZATION PROGRAM

The Company's six-point modernization program proceeded almost exactly on schedule. At year end — the completion of the eighth year of the ten-year program — a total of 48 exchanges had benefitted in 1974 from this program.

Nineteen of these had been converted to dial telephone service with construction of 21 new switching centres to house complex dial equipment, bringing dial service to 10,331 additional telephones.

At the same time, 23,372 of these telephones in 21 areas were connected directly to the DDD network enabling any of some 160,000,000 telephones in Canada, the U.S., parts of Mexico, and as far away as Hawaii and Alaska to be dialed directly by the customer in Nova Scotia. DDD capability rose from 80 to 85% of the total number of telephones in service.

In 23 communities, growing and spreading densities of population brought an enlargement of "base rate" areas — in effect, the widening of areas in which single line service became available at regular monthly rates, without the requirement of a monthly mileage charge. Thus, for some 4,000 customers, mileage charges were eliminated and for hundreds of others these charges were reduced as the base area grew.

In addition to the above improvements, customers in 11 pairs of exchanges were afforded "free long distance" calling between adjacent communities under the Company's plan for provision of Extended Area Service. In two other exchanges, an optional EAS plan was introduced, whereby customers in one exchange were able to purchase blocks of long distance calling to the other for monthly charges as much as 50% below normal long distance rates for the same volume of calling.

In 13 exchanges, a total of 26 rural, independent connecting telephone companies' services were assumed by the Company, bringing to 84 the number whose services have been absorbed in the past eight years. Most of the remaining 39 connecting companies' services will be assumed in the Company's modernization program.

Finally, the Company's rural program achieved progress. There were 1,091 miles of additional buried cable installed during the year and the average number of parties sharing rural lines at year end stood at 6.3, with the goal by the end of 1976 being a reduction to an average of four per line.

NEW SERVICES

New and innovative services were introduced on a variety of fronts. In Kentville, the third in a series of Phone Stores went into service whereby customers are enabled to pay accounts, see and examine the widening range of colors and types of telephone sets available and send and receive telecommunications via facsimile, teletypewriter or computerized data transmission methods.

For businesses both large and small two new toll calling services commenced; Zone Phone enables businesses to purchase monthly blocks of calling times to any of nine surrounding zones throughout the Province singly, or in combination, at attractive rates; IN-WATS provided customers with Province-wide inward calling from their clients, again by purchasing monthly blocks of calling at rates below the normal per-call cost.

As part of the program of expansion for radio and paging services, Bellboy wide-area pocket paging was expanded to provide service in Truro, Amherst, New Glasgow and Sydney. Mobile Exchange Service, or car telephone service, was extended to Amherst.

In concert with other members of the Computer Communications Group, the major business marketing arm of Trans-Canada Telephone System companies, the Company introduced several new computer communication terminals. VuCom II is an intelligent programmable computer terminal capable of displaying words, numbers and drawings on a television-like screen. Datacom 600 is a typewriter-like computer terminal capable of operating under the control of the host computer.

Both of these terminals are designed for high-speed, on-line, real-time computer systems such as customers' reservation systems and management information systems.

Late in the year, plans for a radically new nationwide network for data communications were announced by M.T.&T. and the seven other TCTS members. Called Datapac, it will be the first Canadian use of "packet switching" in which all information is put into standard size packets for transmission between various computer terminals and one or more computer data bases located in major centres across Canada.

"... modern life in Nova Scotia is mobility."

If you had to define one aspect of modern life in Nova Scotia that stood out from all the rest, "mobility" would likely be it.

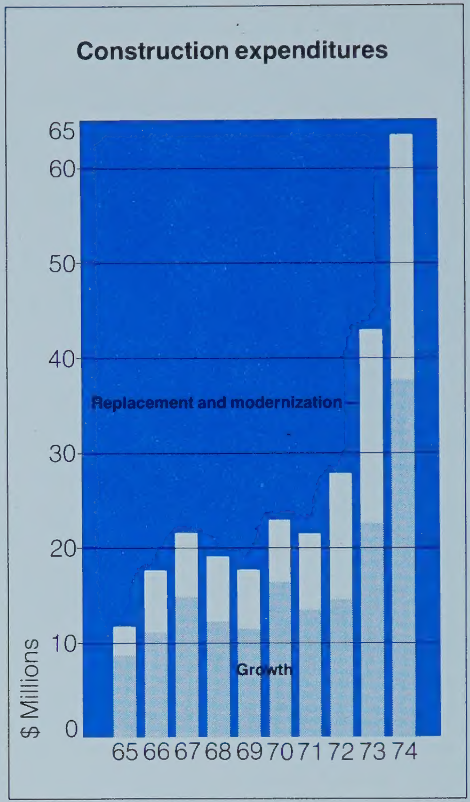
Major centres are growing. Suburbs are spreading. Leisure and recreational cottage communities are springing up.

Generally, telephone customers and businesses who move don't add greatly to the total number of telephones. Yet we must retain facilities at the old location which may not earn money for a while and we must add facilities at the new location. And a substantial number of people move within only months of establishing service, so that cost of installation is not fully recovered.

This year, with inflated costs and high demand, the cost of customer mobility showed up in M.T.&T.'s construction program expenditures. These rose to $63.9 million, compared to $42.6 million in 1973, an increase of 50%, a significant part of which — $39.6 million — was to meet the demand for customer mobility, growth in telephones and service expansion.

The remaining portion of the construction program was to meet equipment replacement requirements, and to carry on the Province-wide accelerated modernization plans with dial, DDD, EAS, base rate enlargement, rural line relief and connecting company service absorption programs.

Thus the overall average construction expenditure for each new telephone gained rose to almost exactly $2,200, well above the $1,650 figure for 1973 and, of course, significantly higher than the historic or embedded plant investment of $854 per telephone.



MAJOR PROJECTS

In addition to the stored program switching centre installed to serve the Rockingham exchange, a number of other projects were completed during the year. At Chezzetcook, which was converted to dial service originally in 1967, a new switching centre was placed in service to accommodate rapid

the Financial Report

in words

The following financial statements are shown on an "equity in net assets" of subsidiaries basis, as well as on a fully consolidated basis. The notes following the two sets of statements are common to both. This summary reports the Company's position on the "equity in net assets" of subsidiaries basis only.

During the year, the Company applied to the Board of Commissioners of Public Utilities for an increase in its tariff rates for service. Approved revised rates effective October 1st along with the greatest increase in telephones in the Company's history contributed significantly to an increase in total operating revenues of 18.0% over 1973. This increase, however, was not sufficient to keep pace with the increase of 23.4% in operating expenses over last year. These spiraling operating costs are due to a number of factors; most prominent is the increased depreciation costs on plant that continues to grow as each year sets a new record in construction spending. Expanding plant requires more labor hours to operate and maintain which is further impacted by the inflationary increases in the cost of wages, benefits and materials.

The 1974 construction program of $63.9 million required the Company to borrow $20 million of debt capital at 10³/₄%, the highest rate in the Company's history. The average cost of all debt outstanding is now 8.2%. One million 8.6% cumulative non-voting redeemable preferred shares were also issued during the year for $10 million.

Earnings per average common share — before extraordinary item — dropped to $1.72 from the $1.94 of the previous year, and the return on average invested capital dropped from 8.6% to 8.4%. The return on average common equity was 8.9% compared to the previous year's 10.1%. These earnings and returns are less than those projected from the recent rate application, and reflect the perils of forecasting under the current economic climate and all its uncertainties. The Federal Government's recent budget imposing a 10% surtax on Canadian Corporation profits effective May 1, 1974 cost the Company an additional $367,000 in income tax expense which had the effect of offsetting $742,000 of operating revenues. Stated another way, the additional tax accounted for 9¢ of the drop in earnings per share.

It is currently projected that the Company will be required to raise some $45 million in external financing in the year 1975 to meet both its construction program and the refunding of outstanding Series of First Mortgage Bonds due to expire in 1975.

1974 Annual Report

of the Directors to the Shareholders of Maritime Telegraph & Telephone Company, Limited

in brief

	1974	1973
Construction Program Expenditures (millions)	**$ 63.9**	$ 42.6
Telephone Plant per Telephone, December 31	**$ 854**	$ 766
Telephones in Service, December 31	**378,823**	349,590
Earnings per Common Share	**$ 1.75**	$ 1.94
Dividends paid per Common Share	**$ 1.30**	$ 1.25
Average Common Shares (thousands)	**4,024**	3,961
Return on Average Invested Capital	**8.4%**	8.6%
Return on Average Common Equity	**8.9%**	10.1%
Equity per Common Share, December 31	**$ 19.66**	$ 19.43
Long-term Debt % Total Invested Capital, December 31	**55.3%**	51.9%
Salaries and Wages (millions)	**$ 30.7**	$ 24.7
Employees, December 31	**3,466**	3,152

Clarkson, Gordon & Co.

Chartered Accountants

Suite 902. The Centennial Building
1645 Granville Street
Halifax, Nova Scotia B3J 1X3

St. John's Halifax Saint John Quebec Montreal
Ottawa Toronto Hamilton Kitchener London
Windsor Thunder Bay Winnipeg Regina Calgary
Edmonton Vancouver Victoria

Arthur Young, Clarkson, Gordon & Co.
United States—Brazil

Telephone (902) 429-4080

AUDITORS' REPORT

To the Shareholders of
Maritime Telegraph and Telephone Company, Limited:

We have examined the consolidated financial position statement of Maritime Telegraph and Telephone Company, Limited and its subsidiary companies as at December 31, 1974 and the consolidated income, retained earnings and changes in financial position statements for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination included the unconsolidated financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1974 and the unconsolidated income, retained earnings and changes in financial position statements for the year then ended and in our opinion these unconsolidated financial statements present fairly the unconsolidated financial position of the company as at December 31, 1974 and the unconsolidated results of its operations and the changes in its financial position for the year then ended on a basis consistent with that of the preceding year.

Halifax, Canada
January 30, 1975

Clarkson, Gordon & Co.

Chartered Accountants

MARITIME TELEGRAPH & TELEPHONE COMPANY, LIMITED
(Unconsolidated)

INCOME STATEMENT
For the Year Ended December 31, 1974
(With Comparative Figures for 1973)

	Thousands of Dollars	
	1974	1973
	$	$
OPERATING REVENUES		
Local service	**33,538**	29,340
Long distance service	**37,854**	31,215
Other	**2,405**	1,952
Uncollectible	*439*	*354*
	73,358	62,153
OPERATING EXPENSES		
Maintenance	**12,154**	9,686
Depreciation (Note 1(b))	**14,446**	12,454
Traffic	**6,801**	5,807
Commercial and marketing	**4,480**	3,361
Administrative	**5,536**	4,209
Other	**5,269**	3,867
Taxes other than income taxes	**2,120**	1,796
	50,806	41,180
	22,552	20,973
Other income (Note 2)	**1,381**	995
	23,933	21,968
INTEREST		
Bond interest	**7,417**	5,409
Other (Note 3)	**1,056**	615
	8,473	6,024
	15,460	15,944
Income taxes (Note 4)	**7,275**	7,530
INCOME BEFORE EXTRAORDINARY ITEM	**8,185**	8,414
Extraordinary item (Note 5)	**111**	—
NET INCOME FOR YEAR	**8,296**	8,414
Earnings per common share:		
— before extraordinary item	**1.72**	1.94
— after extraordinary item	**1.75**	1.94

RETAINED EARNINGS STATEMENT
For the Year Ended December 31, 1974
(With Comparative Figures for 1973)

	Thousands of Dollars	
	1974	1973
	$	$
RETAINED EARNINGS, beginning of year	**22,783**	20,113
ADDITIONS:		
Net income for year	**8,296**	8,414
Other (Note 10)	**48**	—
	8,344	8,414
DEDUCTIONS:		
Preferred dividends	**1,274**	743
Common dividends	**5,231**	5,001
Commission and expenses of issuing preferred stock	**312**	—
	6,817	5,744
RETAINED EARNINGS, end of year	**24,310**	22,783

D. S. Inkpen Comptroller

FINANCIAL POSITION STATEMENT
As at December 31, 1974
(With Comparative Figures for 1973)

ASSETS

	Thousands of Dollars	
	1974	1973
	$	$
TELEPHONE PLANT (Note 1(b))		
Depreciable telephone plant in service	**297,664**	246,450
Other telephone plant (Note 6)	**19,515**	16,314
	317,179	262,764
Less accumulated depreciation	**73,706**	66,462
	243,473	196,302
Materials inventory	**6,265**	4,863
	249,738	201,165
INVESTMENTS		
Equity in net assets of subsidiaries	**3,249**	3,233
Short-term investments (Note 11(b))	**—**	2,538
Other investments (Note 7)	**834**	837
	4,083	6,608
CURRENT ASSETS		
Cash	**877**	632
Accounts receivable	**12,261**	9,583
Income taxes receivable (Note 4)	**1,962**	648
Prepayments	**1,007**	586
	16,107	11,449
DEFERRED CHARGES		
Unamortized long-term debt expenses	**1,543**	1,099
Other deferred charges	**706**	536
	2,249	1,635
	272,177	220,857

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1974	1973
	$	$
SHAREHOLDERS' EQUITY		
Common stock (Note 8)	**41,101**	40,231
Premium on common stock (Note 9)	**15,375**	15,161
Retained earnings	**24,310**	22,783
Total common equity	**80,786**	78,175
Preferred stock (Note 8)	**20,106**	10,425
	100,892	88,600
LONG-TERM DEBT (Note 11)		
First mortgage bonds	**114,500**	94,500
Bank and other notes	**10,500**	1,190
	125,000	95,690
CURRENT LIABILITIES		
Accounts payable	**9,303**	6,927
Interest accrued	**1,494**	1,174
Dividends payable	**1,703**	1,482
Other current liabilities	**360**	350
	12,860	9,933
DEFERRED CREDITS		
Income taxes (Notes 1(c) and 4)	**33,269**	26,614
Other deferred credits (Note 13)	**156**	20
	33,425	26,634
COMMITMENTS (Note 15)		
	272,177	220,857

On behalf of the Board:

A. G. Archibald
Director

D. W. Myers
Director

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31, 1974
(With Comparative Figures for 1973)

	Thousands of Dollars	
	1974	1973
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**74,739**	63,148
Less charges requiring working capital (Note 14)	**48,994**	39,793
From operations	**25,745**	23,355
Deferred income taxes, prior years (Note 4)	**759**	1,807
Extraordinary item (Note 5)	**111**	—
Total internal	**26,615**	25,162
External —		
First mortgage bonds	**20,000**	20,000
8.6% preferred stock	**10,000**	—
Short-term investments matured (Note 11(b))	**2,538**	2,500
Bank and other notes	**10,500**	1,190
Employees' stock savings plan (Note 13)	**1,083**	995
Decrease in working capital	**—**	245
Total external	**44,121**	24,930
Total source of funds	**70,736**	50,092
APPLICATION OF FUNDS:		
Preferred shares purchased for cancellation (Note 8)	**319**	75
Repayment of bank and other notes	**1,190**	200
Dividends	**6,505**	5,744
Investments (Note 11(b))	**—**	2,638
Increase in materials inventory	**1,402**	2,106
Other	**737**	207
Increase in working capital	**1,731**	—
Total application of funds (other than construction)	**11,884**	10,970
Total funds provided for construction	**58,852**	39,122
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**63,063**	41,988
Cost of removing old plant	**826**	631
Construction program expenditures	**63,889**	42,619
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	**3,092**	1,994
— Salvage	**1,688**	1,298
— Other	**257**	205
	5,037	3,497
Total funds used for construction	**58,852**	39,122

The accompanying notes form an integral part of these financial statements

MARITIME TELEGRAPH & TELEPHONE COMPANY, LIMITED
(Consolidated)

CONSOLIDATED INCOME STATEMENT
For the Year Ended December 31, 1974
(With Comparative Figures for 1973)

	Thousands of Dollars	
	1974	1973
	$	$
OPERATING REVENUES		
Local service	**37,365**	32,690
Long distance service	**41,512**	34,277
Other	**2,791**	2,316
Uncollectible	*476*	*372*
	81,192	68,911
OPERATING EXPENSES		
Maintenance	**13,560**	10,767
Depreciation (Note 1(b))	**16,266**	13,853
Traffic	**7,812**	6,701
Commercial and marketing	**4,816**	3,617
Administrative	**5,995**	4,556
Other	**5,655**	4,319
Taxes other than income taxes	**2,267**	1,914
	56,371	45,727
	24,821	23,184
Other income (Note 2)	**1,264**	786
	26,085	23,970
INTEREST		
Bond interest	**8,197**	5,859
Other (Note 3)	**1,231**	798
	9,428	6,657
	16,657	17,313
Income taxes (Note 4)	**7,898**	8,360
INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	**8,759**	8,953
MINORITY INTEREST	**574**	539
INCOME BEFORE EXTRAORDINARY ITEM	**8,185**	8,414
Extraordinary item (Note 5)	**111**	—
NET INCOME FOR YEAR	**8,296**	8,414
Earnings per common share:		
— before extraordinary item	**1.72**	1.94
— after extraordinary item	**1.75**	1.94

CONSOLIDATED RETAINED EARNINGS STATEMENT
For the Year Ended December 31, 1974
(With Comparative Figures for 1973)

	Thousands of Dollars	
	1974	1973
	$	$
RETAINED EARNINGS, beginning of year	**22,783**	20,113
ADDITIONS:		
Net income for year	**8,296**	8,414
Other (Note 10)	**48**	—
	8,344	8,414
DEDUCTIONS:		
Preferred dividends	**1,274**	743
Common dividends	**5,231**	5,001
Commission and expenses of issuing preferred stock	**312**	—
	6,817	5,744
RETAINED EARNINGS, end of year	**24,310**	22,783

D. S. Inkpen Comptroller

CONSOLIDATED FINANCIAL POSITION STATEMENT
As at December 31, 1974
(With Comparative Figures for 1973)

ASSETS

	Thousands of Dollars	
	1974	1973
	$	$
TELEPHONE PLANT (Note 1(b))		
Depreciable telephone plant in service	**328,862**	272,424
Other telephone plant (Note 6)	**23,297**	18,096
	352,159	290,520
Less accumulated depreciation	**81,015**	72,699
	271,144	217,821
Materials inventory	**6,633**	5,136
	277,777	222,957
INVESTMENTS		
Short-term investments (Note 11(b))	**—**	2,538
Other investments (Note 7)	**906**	910
	906	3,448
CURRENT ASSETS		
Cash	**869**	678
Accounts receivable	**13,185**	10,336
Income taxes receivable (Note 4)	**2,179**	554
Prepayments	**1,083**	637
	17,316	12,205
DEFERRED CHARGES		
Unamortized long-term debt expenses	**1,681**	1,232
Other deferred charges	**818**	625
	2,499	1,857
	298,498	240,467

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1974	1973
	$	$
SHAREHOLDERS' EQUITY		
Common stock (Note 8)	**41,101**	40,231
Premium on common stock (Note 9)	**15,375**	15,161
Retained earnings	**24,310**	22,783
Total common equity	**80,786**	78,175
Preferred stock (Note 8)	**20,106**	10,425
	100,892	88,600
MINORITY INTEREST IN SUBSIDIARY COMPANIES		
Preference shares	**5,050**	3,050
Common equity	**3,080**	2,987
	8,130	6,037
LONG-TERM DEBT (Note 11)		
First mortgage bonds	**124,250**	104,250
Bank and other notes	**13,473**	1,670
	137,723	105,920
CURRENT LIABILITIES		
Bank loan (Note 12)	**257**	275
Accounts payable	**11,364**	7,496
Interest accrued	**1,564**	1,243
Dividends payable	**1,703**	1,482
Other current liabilities	**524**	374
	15,412	10,870
DEFERRED CREDITS		
Income taxes (Notes 1(c) and 4)	**36,180**	29,016
Other deferred credits (Note 13)	**161**	24
	36,341	29,040
COMMITMENTS (Note 15)		
	298,498	240,467

On behalf of the Board

A. G. Archibald
Director

D. W. Myers
Director

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31, 1974
(With Comparative Figures for 1973)

	Thousands of Dollars	
	1974	1973
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**82,456**	69,697
Less charges requiring working capital (Note 14)	**53,913**	43,941
From operations	**28,543**	25,756
Deferred income taxes, prior years (Note 4)	**759**	1,957
Extraordinary item (Note 5)	**111**	—
Total internal	**29,413**	27,713
External —		
First mortgage bonds	**20,000**	24,000
8.6% preferred stock	**10,000**	—
Preference stock issued to minority shareholders	**2,000**	—
Short-term investments matured (Note 11(b))	**2,538**	2,500
Bank and other notes	**13,473**	1,670
Employees' stock savings plan (Note 13)	**1,128**	1,034
Decrease in working capital	**—**	235
Total external	**49,139**	29,439
Total source of funds	**78,552**	57,152
APPLICATION OF FUNDS:		
Redemption of first mortgage bonds	**—**	700
Preferred shares purchased for cancellation (Note 8)	**319**	75
Repayment of bank and other notes	**1,670**	884
Dividends	**6,505**	5,744
Dividends to minority shareholders	**471**	349
Investments (Note 11(b))	**—**	2,538
Increase in materials inventory	**1,497**	2,068
Other	**839**	320
Increase in working capital	**569**	—
Total application of funds (other than construction)	**11,870**	12,678
Total funds provided for construction	**66,682**	44,474
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**71,389**	47,614
Cost of removing old plant	**916**	710
Construction program expenditures	**72,305**	48,324
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	**3,253**	2,113
— Salvage	**2,093**	1,517
— Other	**277**	220
	5,623	3,850
Total funds used for construction	**66,682**	44,474

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies —

(a) Accounting for subsidiaries:
The Company owns 51.28% of the common shares of The Island Telephone Company Limited and 100% of the shares of Maritime Computers Limited. The unconsolidated statements reflect the accounts of the subsidiaries on an "equity in net assets" basis.

The consolidated financial statements include the accounts of these subsidiaries.

(b) Telephone plant, at cost:
Depreciation:
Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. Rates, similarly calculated for The Island Telephone Company Limited, are approved by the Public Utilities Commission of the Province of Prince Edward Island. These rates provide for depreciating the assets over their estimated useful service lives and resulted in an unconsolidated composite rate for 1974 of 5.5% (1973, 5.5%). Comparative consolidated composite rate for 1974 is 5.5% (1973, 5.5%).

Materials inventory:
Materials inventory consists of items which will be used in the construction program.

(c) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences.

(2) Other income — the unconsolidated statements include the Company's portion of the net subsidiaries' income of $203,000 (1973, $268,000), interest charged construction of $1,167,000 (1973, $534,000), less other income charges.

The consolidated statements include interest charged construction of $1,257,000 (1973, $606,000), less other income charges.

(3) Other interest — includes amortization of long-term debt expenses amounting to $116,000 (1973, $96,000) on an unconsolidated basis and $125,000 (1973, $101,000) on a consolidated basis.

(4) Income taxes — during 1973 the Company made a change in the method of calculating taxable income. This change enabled the Company to recover a portion of income taxes paid in prior years. Further refinements of this method during the year ended December 31, 1974 enabled the Company to recover an additional $759,000 ($759,000 consolidated) of income taxes paid in prior years. This change has no effect on the net income of the Company.

The current year's income taxes receivable represents a recovery of installments paid for 1974, primarily caused by a large construction program which resulted in a greater tax deferral than was anticipated.

(5) The extraordinary income item of $111,000 ($225,000 before income tax) consists of interest received as a result of income tax re-assessment for the years 1969 and 1970. These re-assessments resulted from claiming for income tax purposes certain additional expenditures in excess of those included in operating expenses for the respective years.

(6) Other telephone plant — land, telephone plant under construction and property held for future telephone use.

(7) Other investments — principally in Telesat Canada. Total investment in these shares on an unconsolidated basis is $738,000, and on a consolidated basis is $798,000.

(8) Capital Stock — par value $10.00 per share

	1974 Shares	1973 Shares
Authorized:	**9,980,200**	10,000,000
Issued:		
Common — beginning of year	**4,023,115**	3,931,918
— issued during year for cash (1974, $1,084,000; 1973, $1,464,000)	**86,970**	91,197
— end of year	**4,110,085**	4,023,115
Preferred — 7% cumulative, voting non-redeemable	**150,000**	150,000
— 7.10% cumulative, non-voting, redeemable*	**870,950**	892,500
— 8.6% cumulative, non-voting, redeemable**	**989,625**	—
	2,010,575	1,042,500
Total issued	**6,120,660**	5,065,615

By Orders of the Supreme Court of Nova Scotia to October 15, 1974, the reduction of the Company's share capital from $100,000,000 to $99,802,000 was confirmed. This reduction resulted from the purchase for cancellation by the Company to August 31, 1974 of 14,700 — 7.10% and 5,100 — 8.60% cumulative redeemable preferred shares.

* These shares are non-voting unless 6 quarterly dividends are in arrears. The Company must make all reasonable efforts to purchase for cancellation in the open market 22,500 Preferred Shares in each calendar year on a non-cumulative basis, at a price not exceeding $10.00 per share together with accrued and unpaid dividends and costs of purchase. During 1974, 21,550 shares were offered and purchased for cancellation (1973, 7,500).

** During the year 1,000,000 shares were issued for cash of $10,000,000. These shares are non-voting unless 6 quarterly dividends are in arrears. The Company must retire, either by redemption or by purchase for cancellation, 30,000 of these shares in each 12 month period ending May 28. The shares will be retired at a price not exceeding $10.00 per share together with accrued and unpaid dividends and costs of purchase. During 1974, 10,375 shares were offered and purchased for cancellation.

(9) Premium on common stock —

	1974 $	1973 $
Beginning of year	**15,161,000**	14,609,000
On shares issued during year	**214,000**	552,000
End of year	**15,375,000**	15,161,000

(10) Retained earnings — other:

Included in Retained Earnings is $48,000 ($48,000 consolidated) of contributed surplus arising from the purchase for cancellation of preferred shares.

(11) Long-term debt:

(a) First mortgage bonds —

Series	Rate	Maturing	Principal
Maritime Telegraph and Telephone Company, Limited:			
I	$3^3/_4$%	May 1, 1975	$ 3,000,000
E	3 %	July 1, 1976	2,000,000
O*	$8^1/_4$%	June 15, 1977	6,000,000
J	$5^1/_4$%	Sept. 15, 1978	3,500,000
K	$5^1/_2$%	Nov. 1, 1980	4,000,000
L	$5^1/_2$%	June 15, 1983	5,000,000
M	$5^1/_2$%	May 1, 1985	7,000,000
N	$6^1/_2$%	March 15, 1987	10,000,000
Q**	$9^1/_4$%	June 1, 1990	10,000,000
R	$8^3/_8$%	May 1, 1991	12,000,000
T	$8^3/_4$%	Dec. 15, 1993	20,000,000
S	$8^5/_8$%	Aug. 1, 1994	12,000,000
U	$10^3/_4$%	Nov. 1, 1995	20,000,000
			114,500,000
The Island Telephone Company Limited:			
D	$5^1/_2$%	May 1, 1978	500,000
E	$5^1/_2$%	Oct. 2, 1981	500,000
F	$5^1/_2$%	June 15, 1983	750,000
G	$7^3/_8$%	Feb. 1, 1988	1,000,000
H	8 %	Dec. 15, 1991	3,000,000
I	$9^1/_4$%	Dec. 15, 1993	4,000,000
			9,750,000
Total first mortgage bonds (consolidated)			$124,250,000

* The holders of Series O Bonds have the right on any interest payment date from December 15, 1970 to December 15, 1975, both dates inclusive, to exchange for $8^1/_4$% Series P First Mortgage Bonds maturing June 15, 1990.

** The holders of Series Q Bonds have the right to require the Company to repay the principal amount at par on June 1, 1975. At December 31, 1974, holders of $8,636,000 principal amount of Series Q Bonds have elected to have such bonds repaid.

(b) Bank and other notes —

Maritime Telegraph and Telephone Company, Limited:	
Bank demand loan at prime rate	$10,500,000
The Island Telephone Company Limited	
Bank demand loan at prime rate	2,973,000
Total bank and other notes (consolidated)	$13,473,000

In order to permit the Company to time its new issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise, the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(12) Bank loan — Maritime Computers Limited bank demand loan at prime rate.

(13) Other deferred credits —

Includes Employees' Stock Savings Plans as follows:

	Maritime Telegraph & Telephone Company, Limited	The Island Telephone Company Limited	Consolidated
As at December 31, 1972	$ 479,000	$18,000	$ 497,000
Add 1973 contributions, including interest	995,000	39,000	1,034,000
	1,474,000	57,000	1,531,000
Less common stock issued in 1973 to employees under the Plans	1,464,000	57,000	1,521,000
As at December 31, 1973	10,000	—	10,000
Add 1974 contributions, including interest	1,083,000	45,000	1,128,000
	1,093,000	45,000	1,138,000
Less common stock issued in 1974 to employees under the Plans	1,084,000	45,000	1,129,000
As at December 31, 1974	$ 9,000	$ —	$ 9,000

Generally, shares are issued in December of each year after the completion of twelve months of contributions. The purchase price is equivalent to 80% of the average market price of the stock. Prior to 1974 shares were issued on June 30 of each year after the completion of twelve months of contributions. However, in July, 1973, the plan was changed to a calendar year basis and additional shares were issued in December, 1973.

(14) Charges requiring working capital —

	1974	1973
	$	$
(a) **Unconsolidated**		
Operating expenses, interest and taxes	**66,554,000**	54,734,000
Less charges not requiring working capital		
— Depreciation	**14,446,000**	12,454,000
— Deferred income taxes	**5,896,000**	4,311,000
— Other	**326,000**	262,000
	20,668,000	17,027,000
	45,886,000	37,707.000
Add credits not producing working capital		
— Interest, pensions and expenses charged to construction	**3,092,000**	1,994,000
— Other	**16,000**	92,000
	48,994,000	39,793,000
(b) **Consolidated**		
Operating expenses, interest and taxes	**73,697,000**	60,744,000
Less charges not requiring working capital		
— Depreciation	**16,266,000**	13,853,000
— Deferred income taxes	**6,405,000**	4,772,000
— Other	**366,000**	291,000
	23,037,000	18,916,000
	50,660,000	41,828,000
Add credits not producing working capital		
— Interest, pensions and expenses charged to construction	**3,253,000**	2,113,000
	53,913,000	43,941,000

(15) Commitments —

(a) Leases:

(1) The Company leases a substantial number of circuits in the ordinary course of its business for which it pays annual rents of approximately $1,000,000. The most significant of these leases expires in 1977.

(2) The Company has contracted to lease computer equipment at an annual rental of approximately $300,000, the contract expiring in 1979.

(3) The Company has several agreements with regard to the Telesat Communications Satellite, Anik I with respect to circuit leases through the Trans-Canada Telephone System. These agreements call for annual payments of approximately $120,000 and expire in 1977.

(4) The Company leases space in several buildings in the ordinary course of its business for which it pays annual rents of approximately $450,000. The most significant of these leases expires in 1977.

(b) The Company has agreed to have Trizec Equities Limited develop a multiphase office complex on land to be leased to Trizec by the Company. The Company will be a major tenant in this development upon completion of the first phase which is anticipated to be in late 1976. The Company will have the option to purchase the development between the 35th and 45th year following completion of the main tower. Detailed agreements are being finalized.

(c) Pension Fund Obligations:
As a result of an actuarial study carried out during 1974, it was decided that all unfunded obligations would be paid and accounted for over the estimated future working lifetime of employees of the Company. This is a departure from the previous practice of amortizing the unfunded obligation over a specific period of time. This change has not had a material effect on income for 1974 and is not expected to have a material effect on income in future years.

(16) Comparative figures:

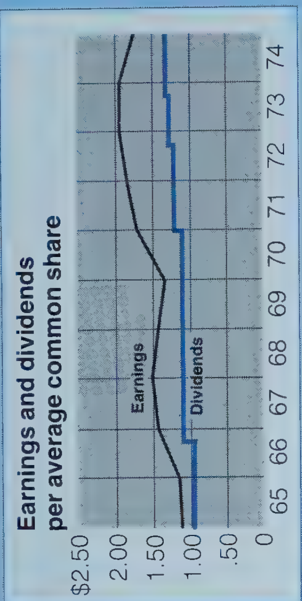
Certain of the 1973 figures have been restated so as to conform the presentation with that followed in 1974.

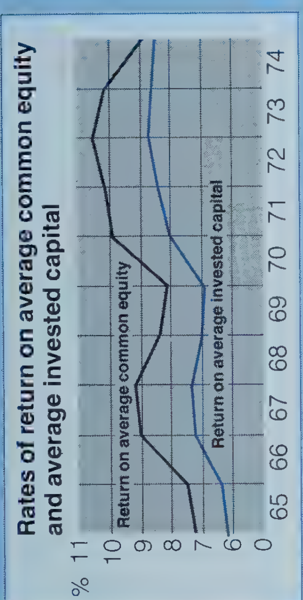
(17) Subsequent events:

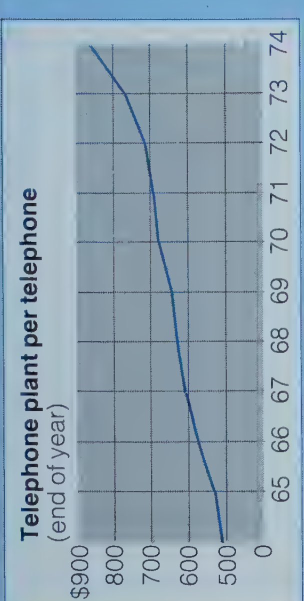
On December 2, 1974 The Island Telephone Company Limited entered into an agreement with Merrill Lynch, Royal Securities, Limited, as Agents, pursuant to which the Company has agreed to sell through Merrill Lynch, Royal Securities, Limited, by private placement, $3,500,000 11% First Mortgage Bonds, Series "J", at a price of $100.00 per $100.00 principal amount. The issue, to be dated and delivered on January 15, 1975, is payable in cash to the Company.

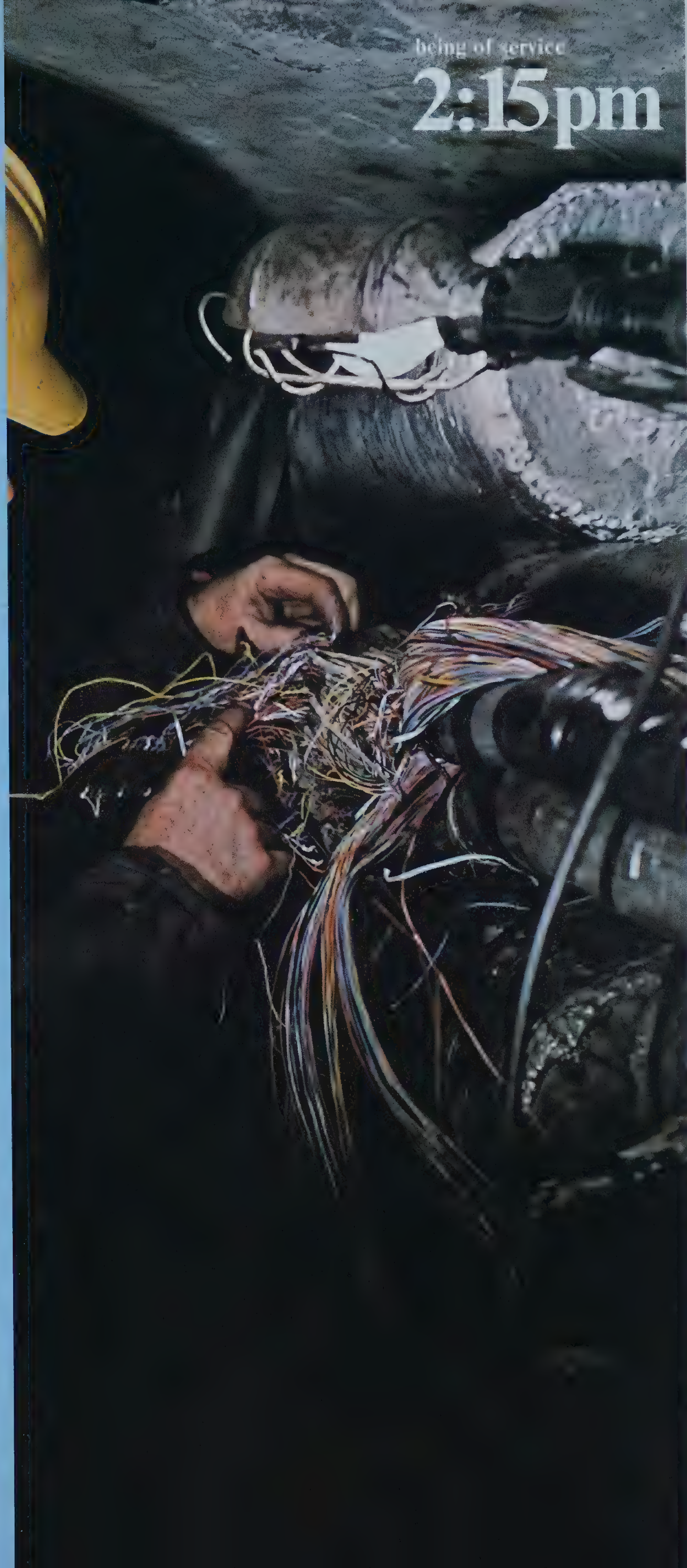
THE YEARS IN REVIEW (Unconsolidated)

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Financial Position at December 31 (in thousands)										
Telephone plant	**$323,444**	$267,627	$230,123	$205,984	$190,400	$174,552	$160,820	$148,361	$129,439	$115,982
Accumulated depreciation	**73,706**	66,462	59,465	51,758	46,892	42,767	38,490	36,269	33,100	30,245
Investments	**4,083**	6,608	6,379	3,588	3,548	2,772	2,722	5,811	2,612	3,611
Current assets	**16,107**	11,449	8,875	9,921	7,548	7,004	6,893	6,834	4,831	4,697
Deferred charges	**2,249**	1,635	1,433	1,091	953	705	519	1,034	764	433
Shareholders' equity	**100,892**	88,600	84,541	72,104	68,957	65,942	64,295	62,726	53,650	45,115
Long-term debt	**125,000**	95,690	74,700	72,150	65,650	55,650	51,000	46,000	36,200	36,000
Current liabilities	**12,860**	9,933	7,113	5,221	5,788	6,795	4,584	5,867	4,408	3,956
Deferred credits	**33,425**	26,634	20,991	19,352	15,162	13,879	12,585	11,178	10,288	8,830
Income (in thousands)										
Operating revenues and extraordinary item	**$ 73,469**	$ 62,153	$ 54,892	$ 48,325	$ 43,986	$ 38,390	$ 35,208	$ 32,334	$ 28,571	$ 24,287
Operating expenses and other taxes	**50,806**	41,180	35,845	30,877	27,674	25,231	22,485	20,720	18,639	16,480
Other income	**1,381**	995	810	675	567	314	435	402	302	243
Interest	**8,473**	6,024	5,076	4,574	3,758	2,958	2,538	2,262	1,759	1,593
Income taxes	**7,275**	7,530	6,650	6,401	6,514	5,282	5,295	4,774	4,107	3,157
Net income for year	**8,296**	8,414	8,131	7,148	6,607	5,233	5,325	4,980	4,368	3,300
Statistics — at December 31										
Telephone plant per telephone	**$ 854**	$ 766	$ 711	$ 692	$ 682	$ 648	$ 627	$ 609	$ 570	$ 531
Equity per common share	**$ 19.66**	$ 19.43	$ 18.84	$ 18.19	$ 17.64	$ 17.10	$ 16.88	$ 16.66	$ 16.37	$ 15.76
Embedded debt cost	**8.2%**	7.6%	7.3%	6.8%	6.1%	5.4%	5.1%	5.1%	4.6%	4.6%
Long-term debt % total invested capital	**55.3%**	51.9%	46.9%	50.0%	48.8%	45.8%	44.2%	42.3%	40.3%	44.5%
Employees	**3,466**	3,152	2,877	2,649	2,529	2,469	2,474	2,632	2,531	2,340
Telephones in service	**378,823**	349,590	323,762	297,877	279,268	269,211	256,388	243,502	227,270	218,533
Dial telephones	**98.1%**	96.0%	94.9%	92.1%	90.8%	90.5%	90.1%	87.9%	87.9%	87.1%
Statistics — for year										
Earnings per common share	**$ 1.75**	$ 1.94	$ 1.94	$ 1.83	$ 1.71	$ 1.37	$ 1.41	$ 1.51	$ 1.43	$ 1.17
Dividends per common share	**$ 1.30**	$ 1.26	$ 1.21	$ 1.20	$ 1.10	$ 1.10	$ 1.10	$ 1.10	$ .99	$ .95
Times bond interest earned — before taxes	**3.2**	4.1	4.1	4.3	5.1	5.2	5.7	5.5	6.2	5.3
Times bond interest earned — after taxes	**2.3**	2.7	2.7	2.8	3.1	3.2	3.4	3.3	3.7	3.2
Return on average invested capital	**8.4%**	8.6%	8.7%	8.4%	8.0%	6.9%	7.0%	7.3%	7.2%	6.3%
Return on rate base	**6.7%**	7.4%	7.6%	7.4%	7.3%	6.2%	6.2%	6.4%	6.2%	5.5%
Return on average common equity	**8.9%**	10.1%	10.4%	10.2%	9.9%	8.1%	8.4%	9.1%	9.0%	7.5%
Construction program expenditures (in thousands)	**$ 63,889**	$ 42,619	$ 27,912	$ 21,518	$ 22,606	$ 17,748	$ 19,166	$ 21,851	$ 17,956	$ 11,959
Average common shares (in thousands)	**4,024**	3,961	3,907	3,854	3,796	3,743	3,698	3,232	2,976	2,739
Salaries and wages (in thousands)	**$ 30,701**	$ 24,651	$ 20,968	$ 17,724	$ 15,684	$ 14,001	$ 12,851	$ 11,852	$10,430	$ 9,063
Average daily calls (in thousands)	**2,265**	1,996	1,799	1,741	1,672	1,471	1,393	1,308	1,236	1,150
Average daily toll messages (in thousands)	**73**	63	55	48	42	38	36	33	31	30









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THE YEARS IN REVIEW (Unconsolidated)

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Financial Position at December 31 (in thousands)										
Telephone plant	**$323,444**	$267,627	$230,123	$205,984	$190,400	$174,552	$160,820	$148,361	$129,439	$115,982
Accumulated depreciation	**73,706**	66,462	59,465	51,758	46,892	42,767	38,490	36,269	33,100	30,245
Investments	**4,083**	6,608	6,379	3,588	3,548	2,772	2,722	5,811	2,612	3,611
Current assets	**16,107**	11,449	8,875	9,921	7,548	7,004	6,893	6,834	4,831	4,697
Deferred charges	**2,249**	1,635	1,433	1,091	953	705	519	1,034	764	433
Shareholders' equity	**100,892**	88,600	84,541	72,104	68,957	65,942	64,295	62,726	53,650	45,115
Long-term debt	**125,000**	95,690	74,700	72,150	65,650	55,650	51,000	46,000	36,200	36,000
Current liabilities	**12,860**	9,933	7,113	5,221	5,788	6,795	4,584	5,867	4,408	3,956
Deferred credits	**33,425**	26,634	20,991	19,352	15,162	13,879	12,585	11,178	10,288	8,830
Income (in thousands)										
Operating revenues and extraordinary item	**$ 73,469**	$ 62,153	$ 54,892	$ 48,325	$ 43,986	$ 38,390	$ 35,208	$ 32,334	$ 28,571	$ 24,287
Operating expenses and other taxes	**50,806**	41,180	35,845	30,877	27,674	25,231	22,485	20,720	18,639	16,480
Other income	**1,381**	995	810	675	567	314	435	402	302	243
Interest	**8,473**	6,024	5,076	4,574	3,758	2,958	2,538	2,262	1,759	1,593
Income taxes	**7,275**	7,530	6,650	6,401	6,514	5,282	5,295	4,774	4,107	3,157
Net income for year	**8,296**	8,414	8,131	7,148	6,607	5,233	5,325	4,980	4,368	3,300
Statistics — at December 31										
Telephone plant per telephone	**$ 854**	$ 766	$ 711	$ 692	$ 682	$ 648	$ 627	$ 609	$ 570	$ 531
Equity per common share	**$ 19.66**	$ 19.43	$ 18.84	$ 18.19	$ 17.64	$ 17.10	$ 16.88	$ 16.66	$ 16.37	$ 15.76
Embedded debt cost	**8.2%**	7.6%	7.3%	6.8%	6.1%	5.4%	5.1%	5.1%	4.6%	4.6%
Long-term debt % total invested capital	**55.3%**	51.9%	46.9%	50.0%	48.8%	45.8%	44.2%	42.3%	40.3%	44.5%
Employees	**3,466**	3,152	2,877	2,649	2,529	2,469	2,474	2,632	2,531	2,340
Telephones in service	**378,823**	349,590	323,762	297,877	279,268	269,211	256,388	243,502	227,270	218,533
Dial telephones	**98.1%**	96.0%	94.9%	92.1%	90.8%	90.5%	90.1%	87.9%	87.9%	87.1%
Statistics — for year										
Earnings per common share	**$ 1.75**	$ 1.94	$ 1.94	$ 1.83	$ 1.71	$ 1.37	$ 1.41	$ 1.51	$ 1.43	$ 1.17
Dividends per common share	**$ 1.30**	$ 1.26	$ 1.21	$ 1.20	$ 1.10	$ 1.10	$ 1.10	$ 1.10	$ .99	$ .95
Times bond interest earned — before taxes	**3.2**	4.1	4.1	4.3	5.1	5.2	5.7	5.5	6.2	5.3
Times bond interest earned — after taxes	**2.3**	2.7	2.7	2.8	3.1	3.2	3.4	3.3	3.7	3.2
Return on average invested capital	**8.4%**	8.6%	8.7%	8.4%	8.0%	6.9%	7.0%	7.3%	7.2%	6.3%
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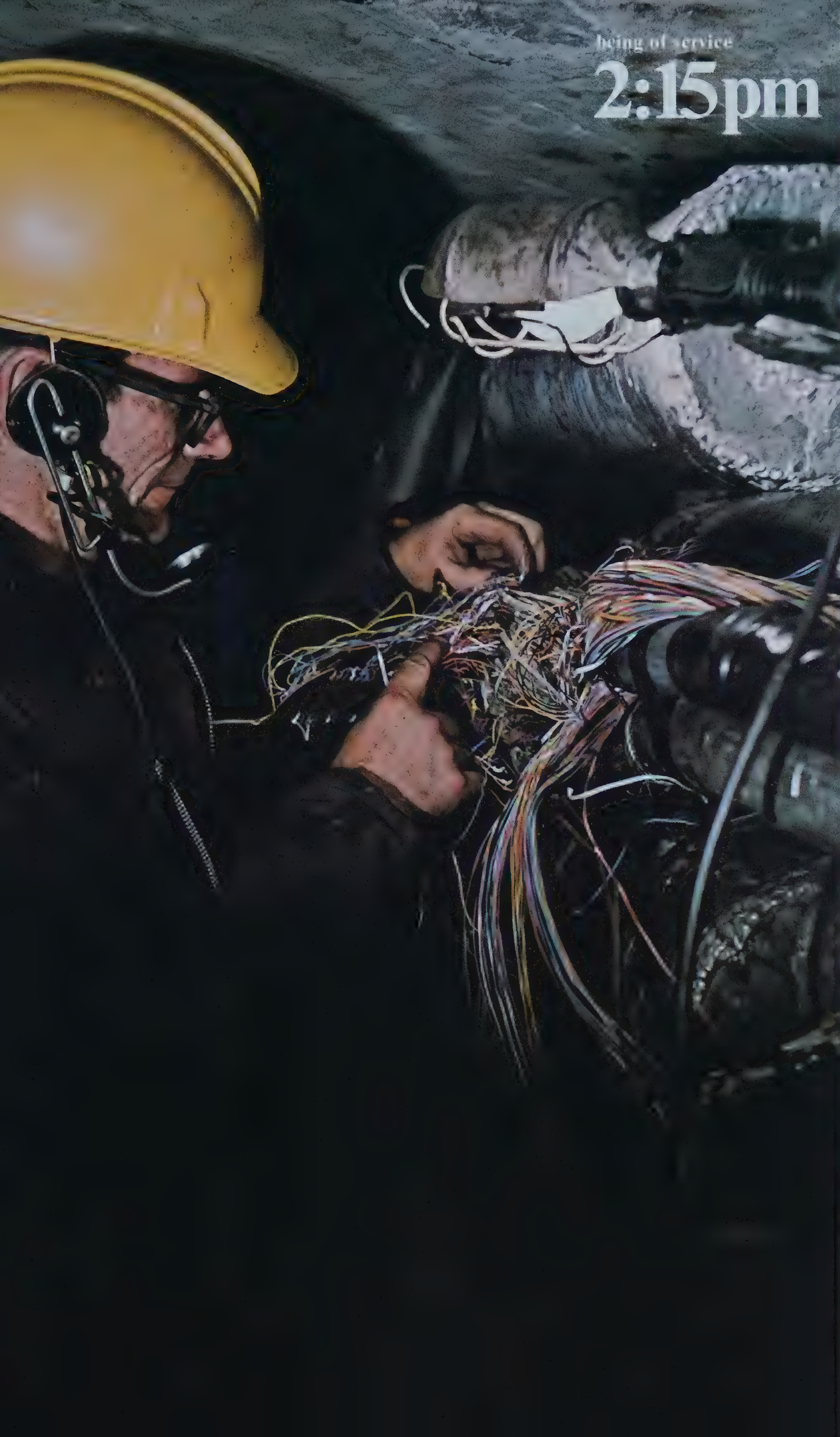
and may be easily removed by separating it from the main body of the Report.



being of service

2:15pm

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4:20pm

The Kentville Phone Store is MT&T's third, and for Janet Height, born in Paradise from where she commutes to her job, working there gives her a chance to enjoy what she likes. People.

''Really, I wouldn't take anything else. I have a history degree from university, but not stenographic training. So being a teller gives me a chance to meet and talk with all kinds of people.''

She adds, ''Maybe you shouldn't say this . . . but with me, it's more important to help each individual who comes into our store than just to take the money.''

What's next for Janet? A history buff, she has travel plans in her future. But for the moment, she's busy paying off her student loan after graduating from Acadia. And, ''I have a job that I like, so I'm going to stay with it.''

growth of this population centre. Similarly, the switching centre at Waverley was replaced and at Thorburn a new exchange and switching centre was established.

At the Halifax Long Distance Centre, a major extension to toll facilities was commenced.

From Beaver Harbor, along the Province's Eastern Shore, the CANTAT II overseas telecommunications cable was linked to Halifax via a new microwave system. And a new microwave system linking the New Glasgow long distance centre to both the Melrose and Guysboro exchanges was completed.

For 1974, these major projects required a construction expenditure of $9.9 million.

LOOKING AHEAD

Fourteen additional communities will receive dial and DDD service during 1975, part of the on-going services modernization program.

At the Spryfield exchange, in Halifax, rapid population growth will be met with the cutting into service of the second Stored Program switching centre.

On the other side of the Halifax-Dartmouth complex, similar population growth will require additional facilities in 1975; at Lake Echo a new, $1.3 million switching centre will be completed for service, and at the Woodlawn exchange growth in demand for new services will see completion of additional facilities.

Additional long distance capabilities will be provided in a number of areas in 1975. Between Nova Scotia and Newfoundland, a new microwave system will be completed. Between Digby and Kentville, a new microwave system will be completed as well. Overall, a growth in "multiplexing" of long distance facilities will be completed at a cost of $1.1 million throughout Nova Scotia.

At Kentville, work already in progress at M.T.&T.'s third stored program switching centre — scheduled for service in 1976 — will be furthered. Final costs of this new centre, which will handle both local and long distance calls — including long distance calls for the Digby Exchange centre — is estimated at $5.2 million.

For 1975, these major projects will require a construction expenditure of $16 million, a significant portion of the Company's overall planned construction expenditure program — for growth, replacement and modernization — of $61 million dollars.

8:25pm

Sometimes the work Bob Isenor does goes right onto the President's desk, it's that important. Other times, it's important enough for two, three or several MT&T departments to get involved and take action.

At the Switched Network Analysis Centre (SNAC), Bob Isenor's responsibilities cover the whole of "902 country", all of Nova Scotia and Prince Edward Island.

From all points in 902 country, a constant stream of condition reports makes up the big picture — what's happening. "And the thing is, you never know whether the next minute will bring a pattern that will mean fast action, the right moves, what I guess you'd call corrective action."

That's how sometimes a status report can end up in the chief executive's lap — where the buck stops.

"... an incredibly complex network simple for you to use."

Consider this. You have an important message to communicate. Possibly you want to talk to someone across the country or half way around the world. What scientific or technical knowledge do you need? What skills do you need?

Very simple. You need to know the number or name of the person you want to talk to and the only skill you need is the ability to turn a dial or push a button.

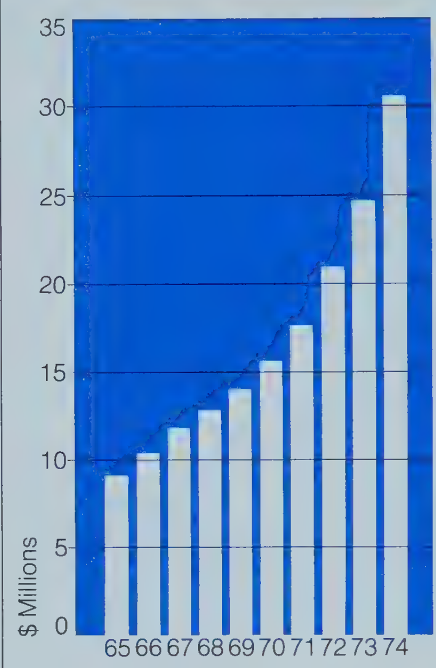
You can do all this with minimum knowledge and skill because thousands of telephone people with a vast collective body of knowledge and skills can make an incredibly complex network simple for you to use.

There were 3,466 employees at the end of the year 1974 — 313 more than at the start of the year. Generally, the trend towards a younger average work force continues. But they are men and women who are highly motivated, well-trained and share the same deep concern for service to their community that has been a tradition in our business.

Wages and salaries paid amounted to $30.7 million, an increase of 24.5% over 1973. As well, benefit and welfare costs (about 12.9% of the total) were $3,961,000.

These benefits included $2,571,000 paid in by the Company to the non-contributory pension fund: $698,000 for sickness, accident, group insurance benefits from the Company, and supplementary hospital insurance; $332,000 to the Canada Pension Plan; and $360,000 to Unemployment Insurance.

Salaries and wages



The skills and managerial know-how of these men and women, combined with improved technologies, are constantly being up-graded and this is reflected in two interesting trends: On the one hand, the number of telephones served per employee has risen in Nova Scotia from 95.4 ten years ago to 109.3 in 1974; and the

corporate investment per employee has risen from $48,495 to $93,346 in the same decade.

The newly-organized General Organization Development department completed its first full year of operation in 1974, with one of its immediate goals a comprehensive overall Company hiring and training program. In 1974, 1,760 men and women participated in 326 courses of varying kinds to acquire and upgrade skills on the job; as well, 191 employees received management development training of varying types.

The skills and dedication of all M.T.&T. employees enabled them to respond magnificently to the challenges they faced towards the end of the year. In rapid succession, a series of severe service outages, effected by torn and damaged underground cables hit by construction companies' bulldozers, was followed by one of Eastern Canada's most devastating wind and blizzard storms.

Thousands of customers' telephones in Halifax were without even basic service for several hours at a time due to the cable damages, and more than 14,000 individual homes and businesses suffered service disruptions throughout the Province as a result of the area-wide storm which struck Sunday, October 20.

It took several days and tens of thousands of manhours to restore these services in the storm's aftermath, with damage calculated at more than $750,000. Despite this, it is gratifying to note that at the peak of the storm, a fast-moving team from the National Crisis Management Committee — a special project of the Federal Cabinet — was able to move into the hardest hit area of Cape Breton and report that the Company's long-term policy of buried and microwave toll circuitry was a key factor in ameliorating communications conditions.

being of service

1:30am

Bob Reyno has been taking a second look at his job recently. As Supervisor of Operations at the computer complex, he really has two basic responsibilities. Now he's got to sort them out.

"For example, I supervise nine operators who rotate on a three-shift, 24-hour day, five-day week — we start up late Sunday night, and turn down shortly after 12:30 a.m. Saturday morning.

"I'm here in the daytime . . . but I'm also on call anytime during the night."

But, Bob's second big job is the training and upgrading of his staff — "my involvement with them". For example, after they've had good experience on-the-job, he then provides lectures on related job topics. So he has to be careful to weigh training-and-development against the task supervision itself.

In that sense, sorting out your job is the kind of thing a lot of telephone people do a lot of the time.

Summing up

"Our skills ... will determine our success."

Asking customers to pay more for telephone service is something Maritime Tel has never liked to do. But, like all consumers, our Company is being hit by higher and higher costs. Obviously, it is difficult enough to keep up with high inflation, let alone catch up.

In October, with the approval of the Board of Commissioners of Public Utilities for Nova Scotia, we instituted a broad range of increases in our rates. The major city rate, for example, rose in the Halifax and Dartmouth area from $6.50 monthly for single-line service to $7.45. This and other changes were designed to improve Company revenues by just over ten per cent in a typical year, beyond normal forecasts.

How serious was this increase? In the context of price changes in the past five years, it was relatively small. In that period, 1970 through 1974, the overall cost of living went up 28.5%, housing costs soared 32%, clothing went up 23.5%, food by nearly 49%.

And at the same time, average earnings for Canadian hourly-paid workers went up 40.4%.

On the other hand, telephone revenues from basic service and long distance calling went up 15.8%.

Downtrending financial patterns for 1974 readily demonstrate that the main impact of inflation continues to fall on the equity shareholder. At the same time, growing demands for service and for service improvement increased capital programs and dependence upon external sources of funds in a situation where the market price of Company shares is substantially less than book value. The Company has been unable to issue common shares at reasonable terms since 1967 and has just about exhausted financing alternatives.

There is no doubt that telecommunications rates must continue to move in reasonable relation to our costs for providing telecommunications service — the costs of capital, of equipment, of wages and salaries. At some point — and it is a matter of timing and appropriateness — the price for top grade single-party service must go up to more than $8 or $9 or even $10 monthly.

In the meantime, we are the first to acknowledge that the men and women of Maritime Tel and Tel face a most difficult and challenging year ahead. Some of our plans have been re-drawn, some of our growth expectations have been re-cast in the light of our assumptions about the course of the Province's economy, and our drive for efficiency and productivity has been subject to continuing re-emphasis. Our skills of implementation of our on-going program for growth, expansion and modernization of telecommunications services for all Nova Scotians will determine our success.

For us the century-old Spirit of Service of the telephone industry itself, which in mid-1974 marked the centennial of the invention of the telephone, has always been underscored by the tribute Thomas Edison paid to Alexander Graham Bell:

"...... (he) annihilated time and space, and brought the human family in closer touch."

For the Board of Directors,

A. G. Archibald

A. Gordon Archibald
President

March 7, 1975

MARITIME TELEGRAPH & TELEPHONE COMPANY LTD

Directors

Garnet L. Angus
President
G. L. Angus Real Estate and Appraisals Ltd.
Amherst

***A. Gordon Archibald**
Chairman of the Board & President
Maritime Telegraph & Telephone Co., Ltd.
Halifax

***†Donald F. Archibald**
President
Archibald Farms Limited
Port Williams

†Harry Bowler
Vice-President (Finance)
Bell Canada
Montreal
elected July 31

Melbourne R. Chappell
Vice-President
Island Construction Company, Limited
Sydney
resigned January 1

D. A. Eisenhauer
President
Atlantic Bridge Co., Ltd.
Lunenburg

***C. L. Gosse, M.D.**
Lieutenant-Governor
Province of Nova Scotia
Halifax

Seymour W. Kenney
President
H. D. MacLeod Agency, Ltd.
Yarmouth

***W. F. Light**
Executive Vice-President (Operations)
Bell Canada
Montreal
resigned July 31

J. J. MacDonald
Vice-President (Academic)
St. Francis Xavier University
Antigonish

***†Donald W. Myers**
Executive Vice-President
Maritime Telegraph & Telephone Co., Ltd.
Halifax

***†George C. Piercey**
Partner
Daley, Black, Moreira and Piercey
Halifax

W. S. Robertson
Vice-President (Operations)
Maritime Telegraph & Telephone Co., Ltd.
Halifax
elected January 24

†J. E. Skinner
Vice-President (Personnel)
Bell Canada
Montreal
resigned July 31

***Percy J. Smith**
Vice-President
Great Eastern Corporation, Ltd.
Halifax

***Charles E. Stanfield**
Vice-President
Stanfield's Limited
Truro

J. C. Thackray
Executive Vice-President (Operations)
Bell Canada
Montreal
elected July 31

*Member of Executive Committee

†Member of Audit Committee

Officers

A. Gordon Archibald
Chairman of the Board and President

Donald W. Myers
Executive Vice-President

W. Struan Robertson
Vice-President (Operations)

Alexander H. MacKinnon
Vice-President (Planning)

Frederick M. Waller
Secretary and Executive Assistant
leave of absence, September 30

Edward J. Hicks
Secretary-Treasurer
appointed September 30

David S. Inkpen
Comptroller

Kathryn E. Watt
Assistant Secretary
appointed September 30

Operations

D. Nelson Braid
General Organization Development Manager

Harry W. Dacey
General Personnel Manager

Ivan E. H. Duvar
Chief Engineer

John R. Gale
General Information Manager

Philip G. Henderson
Business Information Systems Manager

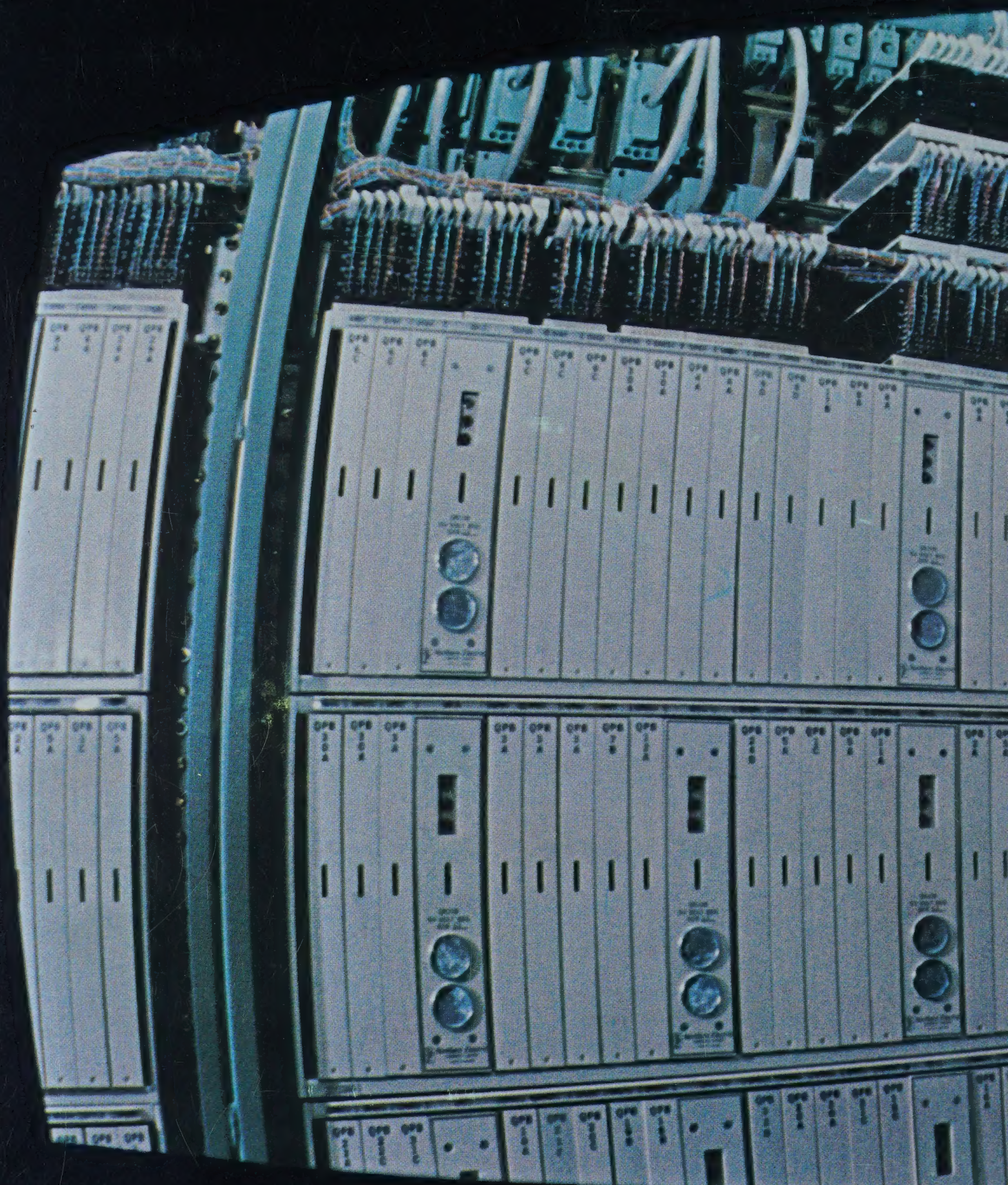
Stephen E. Jefferson
Executive Assistant (Trans-Canada)

H. C. Kingsbury
General Traffic Manager

M. John McGrath
General Marketing Manager

G. Donald Robb
General Plant Manager

Murray W. Wallace
General Commercial Manager



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MARITIME TELEGRAPH & TELEPHONE COMPANY LIMITED

Six Month Report

TO JUNE 30th 1974

TO THE SHAREHOLDERS:

MARITIME TEL & TEL

First stage of the Company's application for rate revisions has been completed before the Board of Commissioners of Public Utilities for Nova Scotia, with additional evidence and final summations scheduled for mid-August.

The Company has stated that the additional revenues are required to permit the Company's service improvement program to continue and to overcome increasing costs imposed by recent and rapid price increases. The Company has requested that revised rates, if approved, be implemented October 1.

As you will note from the items summarized (see box, right) the volume of long distance calls and the rate of telephone set installation are both continuing to show strong gains. However, the Company's capital construction program expenditures are running at their highest rate ever, with construction program costs at $29.1 million for the current period, compared to $15.8 million for the first six months of 1973.

Heavy demands to support these investments have meant that earnings per average common share have continued to drop. On an annualized basis, unconsolidated earnings were $1.80 to June 30, compared to $1.91 for the first half of 1973. Similarly, the rate of return on average invested capital has fallen to 8.34%, compared to 8.58%, to June 30, 1973; and rate of return on average common equity was 9.20% for the first half of this year, compared to 10.06% for the same period a year ago. Net income for the period was $4.0 million, compared to $4.13 million in 1973.

August 1, 1974
Halifax, N.S.

A. G. Archibald
President and Chairman of the Board

MT & T
SIX MONTH GROWTH
(unconsolidated)
(compared to same period last year)

LONG DISTANCE CALLS
12.7 million up 18.1%
SALARIES AND WAGES
$14.2 million up 24.7%
TELEPHONE GAIN
15,859 up 55.6%
TELEPHONES IN SERVICE - JUNE 30th
365,449 up9.4%
EMPLOYEES - JUNE 30th
3,510 up 10.0%

Consolidated Financial Position Statement (Condensed)

(Thousands of dollars) As at June 30th	*1974 $	*1973 $
Telephone plant	317,486	264,585
Accumulated depreciation	76,619	68,442
Investments	906	909
Current assets	18,446	14,060
Deferred charges	2,631	1,620
Shareholders' equity - Preferred	20,377	10,497
- Common	79,285	75,272
Minority interest in subsidiary companies - Preferred	5,067	3,061
- Common	3,052	2,860
Long-term debt - First mortgage bonds	104,250	80,950
- Bank and other notes	5,660	7,130
Current liabilities	11,742	6,616
Deferred credits	33,417	26,346

Consolidated Interim Income Statement

	(Thousands of Dollars) Three Months Ended June 30 *1974 $	*1973 $	(Thousands of Dollars) Six Months Ended June 30 *1974 $	*1973 $
Operating revenues	19,656	16,802	38,028	33,009
Operating expenses and other taxes (Note 1)	13,719	11,189	26,468	21,768
	5,937	5,613	11,560	11,241
Other income	319	74	611	188
Income before interest and income taxes	6,256	5,687	12,171	11,429
Interest	2,254	1,548	4,346	3,047
	4,002	4,139	7,825	8,382
Income taxes (Note 2)	1,806	2,017	3,545	4,075
Income before minority interest & extraordinary items	2,196	2,122	4,280	4,307
Minority interest	141	148	246	273
Income before extraordinary items	2,055	1,974	4,034	4,034
Extraordinary item (Note 3)	13	xxx	117	xxx
Net Income for Period	2,068	1,974	4,151	4,034
Earnings per average common share before extraordinary item	$ .44	$ .45	$ .89	$ .93
Earnings per average common share after extraordinary item	$ .45	$ .45	$ .92	$ .93
Average number of common shares outstanding	4,023,161	3,932,503	4,023,161	3,932,503
(Note 1) Includes depreciation of	$3,984	$3,452	$7,760	$6,656
(Note 2) Consists of: Income taxes payable	$ 595	$1,104	$1,123	$2,329
Income taxes deferred	$1,211	$ 913	$2,422	$1,746

(Note 3) Interest on income tax re-assessments

Consolidated Statement of Changes in Financial Position

(Thousands of Dollars) Six Months Ended June 30	*1974 $	*1973 $
SOURCE OF FUNDS:		
Operating revenues and other income	38,639	33,197
Less: Charges requiring working capital	25,592	21,314
From operations	13,047	11,883
Deferred income tax prior years	766	752
Total internal source	13,813	12,635
Short-term investments matured	2,538	2,500
Bank and other notes	5,660	7,130
Employees' stock savings plan	568	508
Other	xxx	518
Preferred stock issue	12,000	xxx
Total source of funds	34,579	23,291
APPLICATION OF FUNDS:		
Redemption of 7.10% preferred stock	48	3
Bank and short-term loans	1,670	884
Dividends	3,062	2,830
Dividends to minority shareholders	187	172
Increase in working capital	233	2,805
Other	3	xxx
Total application of funds (other than construction)	5,203	6,694
Total funds provided for construction	29,376	16,597
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	31,838	17,966
Cost of removing old plant	410	321
Construction program expenditures	32,248	18,287
Less: Charges not requiring working capital		
-Interest, pensions and expenses credited to income	1,588	965
-Salvage	1,152	619
-Other	132	106
	2,872	1,690
Total funds used for construction	29,376	16,597

*Unaudited